



COMMONWEALTH of VIRGINIA

Philip A. Leone
Director

Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

(804) 786-1258

May 7, 2003

MEMORANDUM

TO: Philip A. Leone, Director

FROM: Linda B. Ford, Chief Legislative Analyst *LB7*

SUBJECT: Request for Changes to Internal Service Fund
Rates by the Department of General Services

This memorandum addresses changes in the internal service fund rates that have been recently requested by Mr. D.B. Smit, Director of the Department of General Services (DGS). DGS' request includes changes in the labor rates for the special maintenance services provided by the department, changes in the rental rates that are charged to tenants of buildings operated and maintained by DGS' Bureau of Facilities Management, changes in the rate for the Office of Graphic Communications, and changes in the mark-up for Virginia Distribution Center products. In addition, DGS has proposed a rate for the new Capital Outlay Management internal service fund. A letter from the director of DGS that requests these rate changes is provided as Attachment A to this memorandum.

FY 2004 Building Maintenance and Repair Labor Rates

The approved FY 2003 and the proposed FY 2004 labor rates for Bureau of Facilities Management personnel are shown on the next page. The requested hourly rates reflect changes

in the salary and fringe benefit costs associated with DGS personnel who provide these types of services.

The labor rates submitted by DGS appear to accurately reflect the hourly charges that would be necessary to cover the hourly compensation costs of the personnel employed for these purposes. The assumptions and calculations supporting the requested labor rates appear to be both appropriate and accurate. **Therefore, I recommend that the Commission approve the new labor rates requested by DGS, to be effective July 1, 2003.**

| <u>Trade</u> | <u>Approved FY 2003 Rate</u> | <u>Requested FY 2004 Rate</u> | <u>Percent Change</u> |
|--------------------|--------------------------------------|---------------------------------------|---------------------------|
| Housekeeping | \$17.62 | \$18.48 | 4.9% |
| Security | 14.61 | 14.94 | 2.3 |
| Painter | 21.44 | 22.67 | 5.7 |
| Electrician | 23.38 | 24.26 | 3.8 |
| Sheet Metal Worker | 22.82 | 24.05 | 5.4 |
| HVAC Mechanic | 25.16 | 26.32 | 4.6 |
| Plumber | 22.03 | 23.25 | 5.5 |
| Carpenter | 23.95 | 24.93 | 4.1 |
| Grounds Worker | 18.18 | 18.75 | 3.1 |
| Project Management | 37.09 | 38.50 | 3.8 |

Rent Plan Rates for FY 2004

The table on the next page provides the rent plan rates approved for FY 2003 and those requested by DGS for FY 2004. The requested rate increase for the library is primarily attributable to increases in the actual cost of maintaining and operating the building. DGS has requested a reduction in the laboratory rental rate because the move to the new rental space in the Biotech Park has been completed. (Despite the rate decrease, it should be noted that the total rental cost for the laboratory space will increase because of a substantial increase in the square footage of rental space.)

| <u>Type of Space</u> | Approved FY 2003 <u>Rate</u> | Requested FY 2004 <u>Rate</u> | <u>Percent Change</u> |
|----------------------|------------------------------------|-------------------------------------|---------------------------|
| Office | \$11.47 | \$11.47 | 0.0% |
| Storage | 3.75 | 3.75 | 0.0 |
| Mansion Complex | 13.23 | 13.23 | 0.0 |
| Library | 9.03 | 9.48 | 5.0 |
| Laboratory | 19.56 | 15.45 | -21.0 |
| Vacant | 5.24 | -- | -- |

Unlike in previous years, the DGS proposed rates do not include a separate rate for vacant space. Instead, the cost of vacant space will be absorbed through the other rates, consistent with private sector practice. This will ensure that the cost for vacant space is allocated across general and non-general fund agencies.

According to DGS and the Department of Planning and Budget, agency budgets were adjusted to account for the proposed changes in rental rates.

I recommend approval of the changes in rent plan rates that have been requested by DGS, to be effective July 1, 2003. These rates provide revenues to meet the estimated costs of DGS services as outlined in its Rent Plan.

Office of Graphic Communications Rate

DGS has proposed an increase in the rate charged to State agencies for providing graphic design service, publication layouts, web design and other related services. Specifically, DGS requests an increase from the current rate of \$50 per hour to a rate of \$60 per hour. The \$50 rate has been in effect since 1999.

OGC has incurred operating losses in the past few years and has had to rely on previously generated balances to fund operations. In addition, DGS reported that

"amendments passed in the 2003 General Assembly session requires OGC to transfer \$30,000 to the general fund in FY03 and \$50,000 in FY04. OGC cannot make these required transfers and meet its operational costs without a change to its current rate."

JLARC staff have reviewed the OGC financial statements and budget and have concluded that the rate increase is needed to cover OGC's current costs. The assumptions and calculations supporting the requested rate appear to be both appropriate and accurate. Based on data supplied by DGS, the \$60 rate would still be substantially below the rate for comparable services obtained through the private sector. **Therefore, I recommend approval of the rate change requested by DGS, to be effective June 1, 2003.**

Mark-up for Virginia Distribution Center Products

VDC's mark-up on its products has been eight percent since 1995. DGS is requesting an increase in the mark-up to 12 percent. Its current mark-up is insufficient to cover the cost of operations and the debt service it began incurring in 2002 due to the new warehouse facility. Based on data provided by DGS, it appears that the price increase will be offset by a reduction of product prices VDC has been able to realize during the past year. DGS expects to be able to reduce the mark-up once the loan for the new facility is paid in full.

Based on DGS' financial statements and projections, it appears that the 12 percent mark-up will enable VDC to cover its operating and debt service expenses. However, it is important to note that DGS' projections are based on an expected substantial increase in sales during the next fiscal year, and more modest increases thereafter. VDC sales have declined in recent years, particularly in FY 2003. While VDC has identified a number of strategies to increase its sales, DGS needs to monitor VDC sales closely in the near future. If an increase in sales consistent with DGS projections does not materialize, then the cost-effectiveness of the distribution center will need to be

MEMORANDUM
May 7, 2003
Page 5

reexamined, with careful consideration given to whether or not to continue operation of the center.

I recommend approval of the mark-up rate change requested by DGS, to be effective June 1, 2003. In addition, I recommend that DGS report on the status of VDC sales to JLARC in six-month intervals.

Rate for New Capital Outlay Management Internal Service Fund

The Bureau of Capital Outlay Management at DGS has historically been funded through the State's general fund. The Appropriation Act passed by the 2003 General Assembly changed the bureau's funding to that of an internal service fund. Capital outlay projects under review have been charged \$95 per review hour since January 1, 2003, and DGS proposes to continue the \$95 rate. The review time cost is expected to be absorbed by the project budgets.

Based on a review of the Bureau of Capital Outlay Management's budget and past expenditures, the proposed rate provides revenues sufficient to meet the estimated costs of the Bureau. The proposed rate appears to be less than the typical rate charged for comparable expertise in the private sector. Further, it is similar to the hourly rate charged by the University of Virginia for its in-house project reviews. **Therefore, I recommend approval of the initial rate proposed by DGS, to be effective immediately.**

lbj